TFSA Investing: How to Turn $15,000 Into $275,000 in 25 Years

Description

Young Canadian investors are using their TFSAs to build portfolios of top TSX dividend stocks. One popular investing strategy for a retirement fund involves reinvesting the dividends in new shares.

Power of compounding

Many companies offer a dividend-reinvestment plan (DRIP) that lets investors use dividends to acquire new shares rather than taking the payout as cash. The new shares are purchased without a transaction charge, and some companies even offer discounts up to 5% on the price of the newly acquired stock.

Investors who own stocks inside an online brokerage account can typically ask the service provider to set up the reinvestments. In this case, the dividend amount normally has to be enough to buy a single share.

The compounding process can be impressive. Each new share increases the size of the next dividend payment, and that in turn buys even more shares. Over time, a small initial investment can turn into a significant sum. This is particularly true if the dividend increases every year and the share price moves higher.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a good example of a top dividend stock that investors can use to build retirement wealth. The company has increased the dividend for 48 straight years and offers investors who enroll in the DRIP a 2% discount on the stock.

Fortis owns $58 billion in utility assets in Canada, the United States, and the Caribbean with 99% of the revenue coming from regulated businesses. This means cash flow tends to be reliable and predictable, enabling management to easily plan investments and dividend increases.

Fortis has a $20 billion capital program on the go that will raise the rate base by about a third to more than $40 billion by 2026. The anticipated increase in cash flow should support planned average annual dividend hikes of 6% through at least 2025. Fortis has other projects under consideration that could be added to the capital plan and lead to higher payout increases or an extended dividend-growth outlook.

Fortis also grows through acquisitions. The company hasn't done a large deal since 2016, but the addition of a merger and acquisition specialist to the senior executive team last year might suggest a new deal could be on the way. The utility sector is consolidating, and Fortis has a good track record of making successful acquisitions.

The stock trades near $61 per share at the time of writing compared to the 2022 high around $65, so investors have a chance to buy Fortis stock on a nice dip. The current dividend yield is 3.5%.

Long-term investors have done well with the stock. A $15,000 investment in Fortis 25 years ago would be worth about $275,000 today with the dividends reinvested.

The bottom line on top stocks for a TFSA retirement fund

The strategy of buying top dividend stocks and using the distributions to acquire new shares is proven one for building wealth. Fortis might not deliver the same returns over the next 25 years, but the stock still deserves to be an anchor pick in a diversified TFSA retirement portfolio.

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1. Dividend Stocks
2. Investing

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